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TO SECSTATE WASHDC PRIORITY 4388

INFO AMEMBASSY ANKARA PRIORITY

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S E C R E T SECTION 1 OF 5 USNATO 1167

E.O. 11652: GDS

TAGS: PFOR, NATO

SUBJECT: DRAFT REPORT TO NATO MINISTERS ON MEDITERRANEAN SITUATION
(MED REPORT)

REF: USNATO 0597 (NOTAL)

1. REFTEL REPORTED THAT DUE TO POSSIBILITY OF SPRING
NAC MINISTERIAL BEING HELD IN APRIL THE MEDITERRANEAN DRAFTING
GROUP WILL MEET DURING THE WEEK OF MARCH 11-15, AND THAT IN
VIEW OF TRUNCATED TIMEFRAME SINCE THE LAST MED REPORT AND OF
ONGOING MIDDLE EAST NEGOTIATIONS THE INTERNATIONAL STAFF (IS)
WAS AUTHORIZED TO EXERCISE ITS JUDGEMENT IN ABBREVIATING THE
USUAL FORMAT OF THE FIRST DRAFT.

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2. THE IS HAS NOW CIRCULATED ITS DRAFT MED REPORT (DPA(74)50 -
AVAILABLE THROUGH NATO REGISTRIES). TEXT QUOTED BELOW.

3. FOR MOSCOW: AT EACH NAC MINISTERIAL DURING RECENT YEARS

FOREIGN MINISTERS HAVE REVIEWED A PREVIOUSLY COMMISSIONED REPORT ON THE SITUATION IN THE MEDITERRANEAN AND INVITED THE NAC IN PERMANENT SESSION TO CONTINUE TO KEEP THE SITUATION UNDER REVIEW. WORK STARTS ON THE MED REPORT ABOUT TWO MONTHS BEFORE THE MINISTERIAL MEETINGS WITH CIRCULATION OF A FIRST DRAFT SO THAT DELEGATIONS CAN BEGIN ACTUAL DRAFTING WITH INSTRUCTED COMMENTS ON AN AGREED FRAMEWORK. BECAUSE THERE IS A SEPARATE NATO MEETING OF MIDDLE EAST EXPERTS WHO CONCENTRATE MORE SPECIFICALLY ON THE MIDDLE EAST POLITICAL SITUATION AND BECAUSE THE MEDITERRANEAN REPORT IS ENDORSED BY THE FOREIGN MINISTERS IN THE SEMI-ANNUAL COMMUNIQUE, THE MED REPORT IS SUPPOSED TO AVOID DIRECT CONSIDERATION OF THE MERITS OF THE ARAB-ISRAELI DISPUTE, AND CONCENTRATE INSTEAD ON "THE EFFECTS OF DEVELOPMENTS IN THE MEDITERRANEAN WITH RESPECT TO SOVIET PENETRATION OF THE AREA".

4. COMMENT: RECOGNIZING THAT THE IS WAS GIVEN FREE HAND TO VARY FROM THE USUAL FORMAT, THE SUBJECT DRAFT STRIKES MISSION AS BEING AS UNNECESSARILY SUPERFICIAL EFFORT. CLEARLY, THE CHAIRMAN OF THE MED REPORT COMMITTEE WHO PREPARES THE IS FIRST DRAFT IS STILL GUN SHY FROM THE SOMEWHAT EXPLOSIVE CONFRONTATIONS AT THE NOVEMBER 1973 DRAFTING SESSION. ADDRESSEES WILL RECALL FRANCE AND THE U.S. DIFFERED OVER INTERPRETATIONS OF THE THEN RECENT MIDDLE EAST HOSTILITIES AND THE STEPS TO BE TAKEN TOWARD SETTLEMENT. FRANCE MADE A DETERMINED EFFORT LAST FALL TO DISTORT THE MED REPORT INTO CONFORMITY WITH FRANCE'S MIDDLE EAST VIEWS INCLUDING SENDING THE TOP QUAI MIDDLE EAST EXPERT TO SUBSTITUTE IN MID-WEEK FOR THE FRENCH REPRESENTATIVE WHO HAD BEEN ASSIGNED TO THE TASK. MISSION EXPECTS FRANCE AGAIN TO DEVOTE CONSIDERABLE EFFORT TO THIS REPORT.

5. MISSION NOTES THE THE U.S. IS VASTLY BETTER INFORMED ON THE SUBJECT OF THIS REPORT THAN ANY OTHER PARTICIPANT. THOUGH THE FINAL REPORT ITSELF ENJOYS NO GREAT STATUS THE DRAFTING EXERCISE ITSELF IS AN EXCELLENT OPPORTUNITY TO INFLUENCE OUR ALLIES, INCLUDING FRANCE, ON THE REAL STATUS OF THINGS. ACCORDINGLY MISSION PROPOSES THE FOLLOWING: A) THAT INFO ADDRESSEES SEND COMMENTS AND CONTRIBUTIONS TO THE DEPARTMENT, INFO USNATO;
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B) IN DEPARTURE FROM RECENT PRACTICE, MISSION IS INCLUDING AMEMBASSY MOSCOW AS INFO ADDRESSEE ON ALL MESSAGES THIS EXERCISE WITH HOPE THAT THEIR VIEWS CAN ALSO BE REFLECTED; C) THAT DEPARTMENT FURNISH NOT ONLY SPECIFIC COMMENTS WITH RESPECT TO PROPOSED ALTERNATIVE LANGUAGE KEYED TO PARTICULAR PARAGRAPHS OF THIS DRAFT TEXT, BUT ALSO RATIONALE AND JUSTIFICATION FOR PROPOSED LANGUAGE CHANGES, AND AMPLE GENERAL COMMENTS THAT WILL ENABLE USNATO PERSUASIVELY TO GUIDE THIS WHOLE EXERCISE IN THE RIGHT DIRECTION. NOTE: AS DRAFTING BEGINS MORNING OF MARCH 11, AND ALTERNATIVE TEXTS HAVE MOST CHANCE OF ACCEPTANCE IF INTRODUCED EARLY, REQUEST DEPARTMENT GUIDANCE BY MARCH 8.
END COMMENT.

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6. BEGIN TEXT:

FOLLOW UP TO PARAGRAPH 5 OF THE COMMUNIQUE OF

10TH AND 11TH DECEMBER, 1973

THE SITUATION IN THE MEDITERRANEAN

ATTACHED IS A DRAFT REPORT ON THE SITUATION IN THE
MEDITERRANEAN WHICH YOU ARE KINDLY REQUESTED TO FORWARD TO YOUR
AUTHORITIES.

2. LIKE THE PREVIOUS REPORTS, THIS DRAFT DOES NOT ENTER INTO
CONSIDERATIONS REGARDING THE ISRAELI-ARAB DISPUTE. IN ADDITION,
SIGNIFICANT EVENTS.

3. THIS REPORT, WHICH WAS DRAFTED BY THE INTERNATIONAL
STAFF WITH THE HELP OF A CONTRIBUTION FROM THE INTERNATIONAL
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MILITARY STAFF, WILL BE EXAMINED BY THE AD HOC GROUP ON THE
MEDITERRANEAN AT THE MEETING WHICH IS SCHEDULED TO TAKE PLACE
UNDER MY CHAIRMANSHIP FROM 11TH-15TH MARCH, 1974.

4. TO ALLOW TIME FOR TRANSLATION, THIS REPORT DOES NOT

COVER ANY EVENT SUBSEQUENT TO 15TH FEBRUARY, 1974.

DEVELOPMENTS IN THE MEDITERRANEAN
DECEMBER 1973-MARCH 1974

1. AT THEIR LAST MEETING IN BRUSSELS, ON 10TH AND 11TH DECEMBER 1973, MINISTERS NOTED THE REPORT ON THE SITUATION IN THE MEDITERRANEAN (C-M(73)117(REVISED)) WHICH HAD BEEN PREPARED ON THEIR INSTRUCTIONS BY THE COUNCIL IN PERMANENT SESSION. IN PARAGRAPH 5 ON THE MINISTERIAL COMMUNIQUE, MINISTERS INVITED THE COUNCIL IN PERMANENT SESSION TO CONTINUE TO KEEP THE SITUATION UNDER REVIEW AND TO REPORT TO THEM AGAIN AT THEIR NEXT MEETING.

2. IN ACCORDANCE WITH THESE INSTRUCTIONS, THE COUNCIL IN PERMANENT SESSION ARRANGED FOR THE FOLLOWING REPORT TO BE PREPARED ON THE SITUATION IN THE MEDITERRANEAN. THIS REPORT SHOULD BE REGARDED AS PART OF THE CONTINUING REVIEW OF, AND CONSULTATION ON, THE SITUATION IN THE MEDITERRANEAN. IN VIEW OF THE FLUIDITY OF THE SITUATION, HOWEVER, AND OF THE FACT THAT THE PERIOD UNDER REVIEW IS SHORTER, THE SURVEY HAS FOCUSED ON THE OUTSTANDING EVENTS AND ON THE GENERAL TREND OF DEVELOPMENT, AS IT AFFECTS THE ALLIANCE.

3.. SIGNIFICANT EVENTS IN THE POLITICAL, MILITARY AND ECONOMIC SPHERES

A. POLITICAL

EGYPT

3. PUBLIC SUPPORT FOR PRESIDENT SADAT HAS NEVER BEEN GREATER. THE EXTENT OF HIS AUTHORITY IS BORNE OUT BY THE FACT THAT HE HAS EVEN CROSSED SWORDS WITH THE EXTREMELY INFLUENTIAL HASSANEIN HEYKAL WHO HAS BEEN DISMISSED FROM HIS POST AS EDITOR OF "AL AHRAH". THE DOWNFALL OF HEYKAL, WHOSE IDEAS WERE REGARDED AS BEING CLOSELY AKIN TO THOSE OF GADAFY, IS THOUGHT TO BE DUE
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TO HIS CRITICISM OF THE PRESENT TREND OF EGYPTIAN POLICY.

4. AT THE END OF JANUARY, MR FAHMI, THE NEW FOREIGN MINISTER, PAID AN OFFICIAL VISIT TO MOSCOW, PROBABLY WITH A VIEW TO CONSULT TOGETHER WITH THE SOVIET LEADERS FOLLOWING THE SIGNATURE ON 18TH JANUARY, 1974 OF THE ISRAELI-EGYPTIAN AGREEMENT ON DISENGAGEMENT, KNOWN AS THE KM 101 AGREEMENT (SEE PARAGRAPH 7 BELOW). IT WAS RUMOURED AT THE TIME THAT THE MOSCOW LEADERSHIP WAS SOMEWHAT IRRITATED BY THE OVERLY INDEPENDENT LINE ADOPTED BY CAIRO.

LIBYA

5. THE SURPRISE ANNOUNCEMENT THAT LIBYA AND TUNISIA WERE

TO BE UNIFIED HAS NOT BEEN FOLLOWED UP BY ANY IMPLEMENTARY MEASURE. ON THE CONTRARY, PRESIDENT BOURGUIBA BACK-PEDALLED IMMEDIATELY AFTER THE ANNOUNCEMENT AND DISMISSED MR. MASMOUDI, HIS FOREIGN MINISTER, WHO HAD BEEN THE ARCHITECT OF THE AGREEMENT. IT HAS BEEN STATED THAT UNIFICATION WOULD BE SUBJECT TO THE AGREEMENT OF MOROCCO AND ALGERIA WHICH TO ALL INTENTS AND PURPOSES MEANS THAT IT HAS BEEN POSTPONED UNTIL THE GREEK KALENDS. THE EGYPTO-LIBYIAN UNION FOR ITS PART SEEMS WELL AND TRULY DEAD.

ISRAEL

6. IN THE DECEMBER 1973 ELECTIONS, THE PARTIES OF THE GOVERNMENT COALITION LOST GROUND WITHOUT, HOWEVER, THOSE GROUPS WHICH ARE LESS FAVORABLE TO A FLEXIBLE APPROACH TO THE ARAB COUNTRIES PROGRESSING TOO SUBSTANTIALLY. THE TASK OF FORMING A NEW GOVERNMENT, WHICH PROMISES TO BE FAIRLY DIFFICULT, HAS BEEN GIVEN TO MADAM MEIR.

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7. IN COMPLIANCE WITH SECURITY COUNCIL RESOLUTION 338, THE PEACE CONFERENCE OPENED IN GENEVA ON 21ST DECEMBER, 1973 WITH A MEETING OF THE FOREIGN MINISTERS OF ISRAEL, EGYPT, JORDAN, THE UNITED STATES AND THE SOVIET UNION UNDER THE CHAIRMANSHIP OF THE SECRETARY GENERAL OF THE UNITED NATIONS. SYRIA REFUSED TO TAKE PART AT THE LAST MINUTE. THE UNITED STATES AND THE USSR

WILL ACT AS CO-CHAIRMEN FOR THE TALKS AHEAD. UNDER THE AEGIS OF THE GENEVA CONFERENCE, AN AGREEMENT, KNOWN AS THE "KM 101" AGREEMENT, WAS REACHED ON 18TH JANUARY, 1974 BETWEEN EGYPT AND ISRAEL CONCERNING THE RECIPROCAL DISENGAGEMENT OF THEIR FORCES ON THE SUEZ CANAL. UNDER THIS AGREEMENT, WHICH FEATURED CONCESSIONS ON EITHER SIDE, EGYPT REGAINED CONTROL OF THE CANAL AND THE ISRAELI TROOPS WITHDREW TO THE SINAI PASSES, THE TWO SIDES BEING SEPARATED BY THE UNITED NATIONS EMERGENCY FORCE. SERIOUS OBSTACLES CONTINUE TO HINDER THE CONCLUSION OF A SIMILAR
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AGREEMENT BETWEEN SYRIA AND ISRAEL ON THE GOLAN FRONT.

B. MILITARY

SOVIET MILITARY PRESENCE IN THE AREA

8. THE SOVIET MEDITERRANEAN SQUADRON CONTINUES TO BE THE ONLY SOVIET MILITARY PRESENCE IN THE AREA. AFTER REACHING A PEAK OF ABOUT 95 SHIPS IN OCTOBER-NOVEMBER 1973 THE SQUADRON HAS BEEN PROGRESSIVELY REDUCED IN SIZE. THE STRENGTH OF THE SQUADRON REACHED ITS PRE-OCTOBER WAS FIGURE BY THE FIRST WEEK IN JANUARY 1974, AND HAS REMAINED THE SAME SINCE THEN. THE CURRENT OPERATIONS OF THE SQUADRON CONFORM TO THOSE OVER THE PAST YEAR. IT IS OF NOTE THAT THE NUMBER OF SUBMARINES (13-15) HAS AN INCREASE OF 3-4 OVER THE CORRESPONDING PERIOD OF 1973; IT REACHED ABOUT 22 DURING THE MIDDLE EAST WAR.

SOVIET EXPORT OF ARMS

9. MUCH OF THE MILITARY EQUIPMENT LOST BY THE ARAB FORCES DURING THE OCTOBER WAR HAS BEEN REPLACED BY THE SOVIET UNION. EXACT QUANTITIES AND TYPES OF EQUIPMENT SUPPLIED ARE NOT KNOWN, REPORTS VARY BUT IT IS LIKELY THAT THE MAJORITY OF AIRCRAFT, TANKS AND SURFACE-TO-AIR MISSILES LOST HAVE BEEN MADE GOOD. THE RESUPPLY TO ARAB COUNTRIES HAS BEEN CARRIED OUT BY SEA-LIFT SINCE THE END OF THE WAR, WHEN THE MASSIVE AIRLIFT CEASED.

SOVIET EXPERTS IN EGYPT AND SYRIA

10. IT IS STILL NOT CLEAR WHETHER THE SOVIET ADVISERS WERE WITHDRAWN FROM EGYPT AND SYRIA DURING THE RECENT WAR; ALTHOUGH IT IS KNOWN THAT THEIR FAMILIES WERE REPATRIATED. THERE IS NO DOUBT THAT SINCE THE CEASE-FIRE THE NUMBER OF EXPERTS AND TECHNICIANS IN BOTH COUNTRIES HAS INCREASED. SOME 2,000 EXPERTS IN EGYPT ARE CURRENTLY REPORTED TO BE TRAINING THE FORCES. THEY ARE ALSO PROBABLY ENGAGED IN STUDIES OF THE LESSONS TO BE LEARNED FROM THE EXPERIENCES OF THE WAR. THE NUMBER OF ADVISERS/ EXPERTS IN SYRIA IS NOT KNOWN.

WEAPON SYSTEMS UNDER SOVIET CONTROL IN EGYPT

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11. THE SSM- (SS-1 SCUD) WAS REPORTED IN EGYPT TOWARDS THE END OF THE OCTOBER WAR. IT IS ESTIMATED THAT THESE WEAPONS REMAIN IN THE COUNTRY UNDER SOVIET CONTROL. THEY ARE THOUGHT NOT TO HAVE NUCLEAR WARHEADS. IT WAS REPORTED THAT MIG-23 FLOGGER AIRCRAFT HAD BEEN DEPLOYED BY THE SOVIET UNION TO EGYPT BUT RECENTLY THESE REPORTS HAVE BEEN DENIED.

LESSONS LEARNED FROM THE MIDDLE EAST WAR

12. ALTHOUGH STUDIES ARE IN PROGRESS, IT IS STILL TOO EARLY AND INFORMATION IS STILL TOO LIMITED TO ATTEMPT TO DRAW ANY CONCLUSIONS ABOUT THE LESSONS TO BE LEARNED BY NATO FROM THE RECENT MIDDLE EAST WAR. IT CAN HOWEVER BE SAID THAT A NUMBER OF LESSONS WERE RELEARNED. PRESS COMMENT ON THIS SUBJECT SHOULD BE TREATED WITH CAUTION.

REOPENING OF THE SUEZ CANAL

13. REPORTS INDICATE THAT WORK ON REOPENING THE SUEZ CANAL MAY START IN THE NEAR FUTURE. IT IS ESTIMATED THAT IT WILL TAKE AT LEAST SIX MONTHS TO RESTORE THE CANAL TO ITS 1967 CONDITION, ALLOWING PASSAGE OF SHIPS UP TO 38 FEET (11.8M) DRAUGHT. IT IS NOT CLEAR WHETHER FURTHER ENLARGEMENT WILL BE UNDERTAKEN. THE REOPENING OF THE CANAL WILL GREATLY FACILITATE THE RAPID REINFORCEMENT OF THE SOVIET NAVAL PRESENCE IN THE INDIAN OCEAN. FOR INSTANCE, A SHIP MAKING THE PASSAGE TO THE ARABIAN SEA FROM THE BLACK SEA VIA THE CANAL WOULD SAVE 22 DAYS BY COMPARISON WITH THE SAME SHIP PROCEEDING VIA THE CAPE OF GOOD HOPE. THE SAVING IS 14 DAYS FROM NORTHERN FLEET BASES.

SOVIET PENETRATION IN IRAQ

14. THE SOVIET INFLUENCE CONTINUES LARGELY THROUGH A CONTINUED SUPPLY OF ARMS. IT IS NOT CLEAR WHETHER THE BLINDER AIRCRAFT DELIVERED AT THE TIME OF THE MIDDLE EAST WAR ARE BEING FLOWN BY IRAQI OR SOVIET PILOTS.

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C. ECONOMIC

15. IN ISRAEL, A NUMBER OF TAXES WERE RAISED TOWARDS THE END OF LAST YEAR AND SUBSIDIES HAVE BEEN REDUCED BY MORE THAN 1 MILLIARD ISRAELI POUNDS. THIS HAS LED TO A VERY STEEP RISE IN THE COST OF LIVING. MOREOVER, THE TRADE DEFICIT INCREASED BY 82 PERCENT IN 1973 AND NOW STANDS AT \$1,700 MILLION.

16. IN EGYPT, IT SHOULD BE POSSIBLE TO START CLEARING THE SUEZ CANAL SHORTLY AND FINISH THE WORK BY THE END OF THE YEAR, THUS ENABLING VESSELS OF UP TO 70,000 TONS TO USE IT. IT MAY LATER BE DECIDED TO WIDEN AND DEEPEN THE CANAL IN TWO 3-YEAR STAGES. SPECIAL PRIORITY HAS BEEN GIVEN TO THE REHABILITATION AND DEVELOPMENT OF THE CANAL ZONE AS A WHOLE AND TO THE REACTIVATION OF THE SUEZ REFINERIES.

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17. SYRIA'S CHANCES OF FULFILLING THE 1971-1975 FIVE-YEAR PLAN, WHICH WAS TO GIVE THE COUNTRY THE INFRASTRUCTURE IT NEEDS TO ACCELERATE ITS ECONOMIC DEVELOPMENT, HAVE BEEN JEOPARDIZED BY THE WAR WITH ISRAEL.

18. IRAQ HAS JUST OBTAINED AN ECONOMIC DEVELOPMENT LOAN OF 1 MILLIARD DOLLARS FROM JAPAN. IRAQI OIL OUTPUT IS IN THE REGION OF 2.1 MILLION BARRELS A DAY, WHICH IS A 43 PERCENT IMPROVEMENT ON THE AVERAGE PRODUCTION FOR 1972.

19. LIBYA HAS RECENTLY REVISED UPWARDS BY ONE HALF MILLIARD DOLLARS THE COST OF ITS 1973-1975 THREE-YEAR DEVELOPMENT PLAN (ESTABLISHED AT \$7.14 MILLIARD WITH \$2.5 MILLIARD SCHEDULED TO BE SPENT IN 1974). IT WILL BE NOTED, HOWEVER, THAT THE PLAN PROVIDES FOR THE INVESTMENT OF ONLY \$608 MILLION IN THE OIL SECTOR.

20. FOR THE OTHER COUNTRIES IN THIS AREA THE ONLY NOTEWORTHY

DEVELOPMENT IS THE STEEP INCREASE IN THE PRICE OF PHOSPHATE, WHICH HAS TREBLED IN VALUE FROM 13-15 DOLLARS TO 40/45 DOLLARS A TON. THIS WILL HAVE A PARTICULARLY BENEFICIAL EFFECT ON THE MOROCCAN, TUNISIAN AND JORDANIAN TRADE BALANCE.

D. THE OIL SECTOR

21. THE OIL OUTPUT OF THE ARAB COUNTRIES ACCOUNTS FOR ABOUT ONE-THIRD OF THE WORLD PRODUCTION, WHICH WAS ESTIMATED AT APPROXIMATELY 2,800 MILLION TONS IN 1973. IN SPITE OF THE OIL SQUEEZE DECIDED ON BY THE ARAB COUNTRIES IN OCTOBER 1973, SAUDI ARABIAN OUTPUT PROBABLY REACHED 2.7 MILLIARD BARRELS, OR SOME 32 PERCENT MORE THAN IN 1972. THIS FIGURE IS AN INDICATION THAT SAUDI ARABIA WILL HENCEFORTH PLAY A DECISIVE ROLE IN THE DEVELOPMENT OF RELATIONS BETWEEN PRODUCER AND CONSUMER COUNTRIES, ALL THE MORE SO AS IT POSSESSES A LITTLE OVER 22 PERCENT OF PROVEN WORLD OIL DEPOSITS. THE SAUDI GOVERNMENT MAY BE TEMPTED TO OBTAIN A CONTROLLING INTEREST IN THE OPERATIONS OF THE OIL COMPANIES ON ITS TERRITORY, LIKE KUWAIT, WHICH NOW HAS A 60 PERCENT SHARE IN SUCH OPERATIONS.

22. THE EMBARGO ON OIL FOR CERTAIN COUNTRIES IS STILL
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BEING OFFICIALLY APPLIED AS IS THE DECISION TO REDUCE OIL OUTPUT, ALTHOUGH BY 15 PERCENT NOW AND NOT 25 PERCENT. HOWEVER, THE MOST DIFFICULT PROBLEM FACING THE CONSUMER COUNTRIES IS THE FANTASTIC RISE IN THE POSTED PRICES OF A BARREL OF OIL WHICH, DEPENDING ON THE PRODUCING COUNTRY, NOW RANGE FROM \$11.6 TO \$12.2.

23. THE OIL REVENUE OF THE ARAB PRODUCING AND EXPORTING COUNTRIES IS EXPECTED TO BE AT LEAST \$5 MILLIARD IN 1973M EXCEPT FOR IRAQ AND ALGERIA, WHICH REQUIRE LARGE INVESTMENTS FOR THEIR DEVELOPMENT, THE ARAB OIL-PRODUCING COUNTRIES WILL BE UNABLE TO SPEND ALL THE REVENUE THEY WILL NOW BE RECEIVING FROM OIL.

24. IT SEEMS LIKELY THAT THE OIL-PRODUCING COUNTRIES OF THE GULF, AND PERHAPS LIBYA TOO, WILL EXTEND ECONOMIC AID TO THE LESS FAVOURED ARAB STATES. HOWEVER, IT IS CLEAR THAT THE ARAB COUNTRIES WILL HAVE SIZEABLE LIQUID ASSETS WHICH THEY WILL SEEK TO PLOUGH BACK INTO THE WORLD ECONOMY, PARTICULARLY IN THE UNITED STATES, WESTERN EUROPE AND JAPAN. IT REMAINS TO BE SEEN WHETHER THE WORLD ECONOMY WILL BE ABLE TO ABSORB EACH YEAR AN INFLUX OF CAPITAL WHICH COULD WELL BE IN EXCESS OF \$30 MILLIARD.

II. PRESENT TRENDS

A. POLITICAL

25. THE PRESTIGE WHICH SADAT HAS UNDENIABLY REGAINED IS IMPORTANT SINCE IT GIVES HIM THE AUTHORITY TO WIN BACKING FOR THE NEGOTIATIONS WITH ISRAEL. THE EGYPTIAN PRESIDENT SEEMS DETERMINED TO PLAY THE PEACE CARD AND TO WORK FOR ECONOMIC

RECOVERY. IN THIS CONTEXT, THE INDICATIONS THAT THE EGYPTIAN AUTHORITIES INTEND TO SET ABOUT CLEARING THE CANAL AND REBUILDING THE CANAL TOWNS ARE A GOOD OMEN. IN ADDITION, THE PARDON GRANTED TO CERTAIN MEMBERS OF THE SABRY GROUP AND THE PARTIAL LIFTING OF CENSORSHIP REFLECT A MOVE TOWARDS LIBERALIZATION. THE EVICTION OF HEYKAL SHOWS TOO THAT SADAT IS DETERMINED TO TURN HIS BACK ON "NASSERISM".

26. FAISAL, WHOSE POSITION IN THE ARAB WORLD IS GROWING STEADILY STRONGER, SEEMS TO HAVE GATHERED GREATER INFLUENCE WITH SADAT PROGRESSIVELY AS THE LINKS BETWEEN THE EGYPTIAN HEAD OF STATE AND GADAFY WEAKENED. THIS IS IN PRINCIPLE AN ENCOURAGING DEVELOPMENT.

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27. THE SOVIET UNION HAD ADOPTED A CAUTIOUS, WAIT-AND-SEE ATTITUDE. THE USSR SEEMS PREPARED TO CO-OPERATE IN THE QUEST FOR A PEACEFUL SETTLEMENT. IT HAS NOT, FOR EXAMPLE, SOUGHT TO THWART THE DIPLOMATIC EFFORTS OF THE UNITED STATES BY ENCOURAGING ONE OR OTHER OF THE ARAB COUNTRIES TO ADOPT UNBENDING ATTITUDES.

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S E C R E T FINAL SECTION OF 5 USNATO 1167

ON THE CONTRARY, THE KREMLIN HAS APPARENTLY APPROCATED DAMASCUS

IN AN ATTEMPT TO CONVINCE THE SYRIANS THAT THEY SHOULD AGREE TO NEGOTIATIONS WITH THE ISRAELIS ON A DISENGAGEMENT AGREEMENT WHICH WOULD PERMIT RESUMPTION OF THE NEGOTIATIONS WITHIN THE FRAMEWORK OF THE GENEVA CONFERENCE. PRESIDENT ASSAD, AT THE END OF JANUARY, PAID A SECRET VISIT TO MOSCOW WHERE HE HAD TALKS WITH MR. BREZHNEV. THE USSR SEEMS ANXIOUS NOT TO APPEAR TO BE ADOPTING A TOO PASSIVE DIPLOMATIC ATTITUDE IN ORDER TO PRESERVE ITS PRESTIGE IN THE ARAB WORLD.

28. IT HAD EARLIER BEEN POINTED OUT THAT THE SOVIET POLICY OF PENETRATION IN THE MIDDLE EAST REFLECTED A GROWING INTEREST IN THE PERSIAN GULF AND THE INDIAN OCEAN. THE PROSPECTS OF A REOPENING OF THE SUEZ CANAL HAVE BROUGHT THIS INTEREST INTO THE LIMELIGHT AGAIN. THE SOVIET UNION IS OBVIOUSLY ONE OF
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THE COUNTRIES WITH THE MOST TO GAIN FROM THE REOPENING OF THE CANAL, WHICH WOULD, IN PARTICULAR, GIVE IT GREATER FLEXIBILITY IN THE DEPLOYMENT OF ITS NAVAL FORCES. THE RECENT CLASHES ON THE IRAQI-IRANIAN FRONTIER SHOULD ALSO BE MENTIONED IN THIS CONTEXT SINCE THEY ARE A REMINDER OF THE STRUGGLE FOR INFLUENCE WHICH THESE TWO COUNTRIES ARE WAGING IN CONNECTION WITH THE CONTROL OF THE CHATT EL ARAB ESTUARY.

B. MILITARY
SOVMEDRON

29. THE RECENT REDUCTION IN THE STRENGTH OF THE SOVMEDRON IMPLIES THAT A FORCE OF ABOUT 50 SHIPS IS CONSIDERED BY THE SOVIETS TO MEET THEIR PEACETIME NEEDS IN THE AREA. THESE REQUIREMENTS WOULD APPEAR TO BE A SOVIET PRESENCE TO MAINTAIN THEIR INFLUENCE ON THE RIPARIAN STATES AND TO MATCH THE PRESENCE OF THE NAVAL FORCES OF NATO COUNTRIES.

RE-EQUIPPING OF EGYPT AND SYRIA

30. THE REPLACEMENT OF EQUIPMENT DESTROYED IN THE MIDDLE EAST WAS TO BE EXPECTED IN ORDER TO MAINTAIN A BALANCE AGAINST THE ISRAELI FORCES. THE POSSIBILITY OF RENEWED FIGHTING WITH ALL THEIR POTENTIAL IMPLICATIONS ON THE INTERNATIONAL SCENE SHOULD NOT BE LOST SIGHT OF.

SOVIET EXPERTS IN EGYPT

31. THE REINTRODUCTION OF SOVIET EXPERTS COULD INDICATE A RENAISSANCE OF SOVIET INFLUENCE IN EGYPT; IT COULD LEAD TO A RENEWAL OF THE DEPLOYMENT OF SOVIET AIRCRAFT TO THE COUNTRY THEREBY REPROVIDING THE AIR RECONNAISSANCE AND SUPPORT OF THE SOVMEDRON WHICH HAS BEEN LACKING SINCE MID-1972 WHEN ALL SOVIET MILITARY PERSONNEL WERE EXPELLED.

REOPENING OF THE SUEZ CANAL

32. THE IMPLICATIONS FOR NATO OF THE SUEZ CANAL BEING

REOPENED ARE LESS DIRECT THAN THE OTHER EVENTS BUT MUST BE OF CONCERN AS IT WOULD FURTHER IMPROVE THE SOVIETS INFLUENCE IN THE INDIAN OCEAN/RED SEA AREAS.

C. ECONOMIC

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33. THE YEAR 1974 PROBES TO BE A TURNING-POINT FOR THE SOUTHERN PART OF THE MEDITERRANEAN BASIN. THE PREVIOUS PLAN FOR THE ECONOMIC DEVELOPMENT OF THE REGION HAVE BEEN COMPLETELY UPSET BY THE EVENTS OF THE LAST QUARTER OF 1973, NAMELY, THE FOUR-FOLD INCREASE IN THE PRICE OF OIL AND THE DETERMINATION OF THE ARAB OIL-PRODUCING COUNTRIES TO PLAY A FAR MORE ACTIVE ROLE, BOTH WITHIN THE ARAB WORLD AND IN THEIR FINANCIAL, COMMERCIAL AND ECONOMIC RELATIONS WITH THE INDUSTRIALIZED NON-COMMUNIST WORLD AND MOST OF THE DEVELOPING COUNTRIES.

34. ALTHOUGH THE REOPENING OF THE SUEZ CANAL IN THE NEAR FUTURE IS A POSITIVE FACTOR FOR THE ALLIANCE, AND PARTICULARLY FOR ITS EUROPEAN MEMBERS, THERE IS A DANGER THAT THE STAGGERING RISE IN THE PRICE OF OIL MAY SLOW DOWN ECONOMIC GROWTH, INCREASE INFLATIONARY PRESSURES AND HAVE AN ADVERSE EFFECT ON THE BALANCE OF TRADE.

35. THANKS TO THE BIG INCREASE IN THEIR OIL REVENUES, THE GULF STATES COULD BE IN A POSITION TO OFFER THE ARAB COUNTRIES WHICH RECEIVE ECONOMIC ASSISTANCE FROM THE SOVIET UNION A CHANCE OF BECOMING INDEPENDENT OF MOSCOW IF THEY SO WISH.

III. CONCLUSIONS

36. IN THE POLITICAL SPHERE, FUTURE DEVELOPMENTS ARE STILL DEPENDENT ON A SUCCESSFUL OUTCOME OF THE ISRAELI-ARAB NEGOTIATIONS. WHILE IT IS TRUE THAT THESE GOT OFF TO A GOOD START, EVEN THOUGH THEY ONLY AFFECT EGYPT FOR THE PRESENT, IT IS CLEAR THAT THE PUTTING TOGETHER OF AN OVERALL SETTLEMENT WHICH TAKES ACCOUNT OF THE INTERESTS OF THE PARTIES CONCERNED, STILL HAS TO OVERCOME A NUMBER OF OBSTACLES. THE ALLIED COUNTRIES SHOULD CONTINUE TO SUPPORT THE EFFORTS MADE TO THIS END. FROM THE MILITARY POINT OF VIEW, THE SOVIET POSTURE HAS LARGELY RETURNED TO THE "STATUS QUO ANTE" WITH THE SOVMEDRON, REDUCED IN SIZE TO ITS PRE-WAR STRENGTH, AS THE ONLY SOVIET MILITARY PRESENCE IN THE AREA. BY THE REPLACEMENT OF EQUIPMENT LOST IN THE MIDDLE EAST WAR, THE SOVIETS RETAIN SOME INFLUENCE IN THE ARAB COUNTRIES. THE REOPENING OF THE SUEZ CANAL WOULD IMPROVE THE SOVIET CAPABILITY TO REINFORCE THEIR NAVAL PRESENCE IN THE RED SEA/INDIAN OCEAN AREA. THE ALLIED COUNTRIES MUST SEE TO IT THAT ADEQUATE MILITARY FORCES ARE MAINTAINED IN THE AREA. IN THE ECONOMIC FIELD, THE ALLIED

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COUNTRIES SHOULD, THROUGH APPROPRIATE CONSULTATIVE EFFORTS, LIMIT TO THE MAXIMUM EXTENT THE REPERCUSSIONS OF THE ENERGY CRISIS ON THEIR ECONOMIES. IN PARTICULAR, ALL NECESSARY MEASURES SHOULD BE TAKEN TO DEVELOP ALTERNATIVE ENERGY SOURCES. END TEXT.
RUMSFELD.

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